March 15, 2001

Honorable Norman K. Ferguson, Senate Chair
Honorable William R. Savage, House Chair
Joint Standing Committee on Utilities and Energy
115 State House Station
Augusta, ME 04333

Re: LD 741, An Act to Mitigate Volatile Energy Costs

Dear Senator Ferguson and Representative Savage,

The Commission will testify in opposition to LD 741 (An Act to Mitigate Volatile Energy Costs) as it is written. The Commission will be present at the work session and will be pleased to work with the Committee as it considers this bill.

LD 741 would provide a 2 cent-per-kWh credit to all nonresidential customers, and would fund that credit through a draw-down of the regulatory liability accounts created by the sale of utilities' generating facilities.

The Commission deliberated a similar proposal on March 12, 2001, in Dockets No. 97-580 and 97-596. In that proceeding, the Commission approved a 0.8 cent-per-kWh reduction in the T&D rates for customers in Bangor Hydro-Electric's (BHE) large customer class and Central Maine Power Company's (CMP) medium and large classes, effective April 15, 2001. The reduction will be given to both standard offer customers and to customers who purchase generation on the open market. However, it will not be given to customers who receive T&D service through a reduced-rate contract. The reduction will remain in place until February 28, 2001.

In reaching its decision, the Commission considered the value of the so-called "asset sale gain account" (ASGA) in each utility's territory, the level of rates paid by each customer class, and the steps already taken to mitigate high generation prices. The Commission also compared the benefits of short-term price relief to the benefits of retaining value in the ASGA as a longer-term offset of stranded costs. It considered ways to reflect, in the future, the fact that relief was granted to only some customer classes. Finally, the Commission weighed the history and purpose of reduced-rate contracts when determining the appropriate approach to those customers.

Finally, in considering which customers should receive a rate reduction, we considered factors that already mitigated some customers' overall price. For example, the T&D rates of customers with bundled contracts (i.e., the contract includes generation and delivery) are already mitigated through the unbundling process that the Commission approves for each contract. In other words, the customer's total rate remains consistent with the contract terms; its T&D rate is set at the total rate less the customer's generation cost. As another example, CMP's small commercial customers' 4-cent standard offer rate has been mitigated by the two-year fixed contract entered into in March, 2000.

To help quantify the impact of these decisions, we offer these facts about CMP. CMP's ASGA is currently worth approximately $225M. When the 0.8 cent-per-kWh rate reduction is given to all CMP's medium and large customers (excluding those on special contracts) for approximately one year, as we ordered in our decision, the value of the ASGA would drop by $27M. If the 0.8 cent-per-kWh reduction is extended to all customers under special contract, CMP's ASGA would drop an additional $12M. However, if the ASGA account is extended to the subset of contract customers whose T&D rate is not already mitigated, CMP's ASGA account would drop by only $7.5 M. To put these numbers in perspective, CMP's total revenues are approximately $400M.

To further help quantify the impact of this bill, we note that a rate reduction of 2 cents-per-kWh, if continued beyond one year, would cause BHE's asset sale gain account to be depleted in slightly over one year and CMP's account to be depleted in slightly over two years.

Determining the most efficient and effective way to allocate costs and benefits to customers over time is a function that we routinely carry out. We understand that the Legislature may decide that policy issues such as economic development and support of Maine's jobs, which are not in our purview, should be considered in this instance. If, because of these issues, the Legislature decides that further rate mitigation should occur, we urge the Legislature to avoid the depletion of the funds that would result from a 2-cent mitigation. We further urge that it avoid offering mitigation to those customers who are already receiving it. If these two outcomes are avoided, we have no objection to the Legislature directing additional mitigation as it deems necessary for policy reasons.

If you have any questions, please contact me.

Sincerely,

Marjorie R. McLaughlin
Legislative Liaison